

**SUBSTITUTE AMENDMENT IN THE NATURE OF A
SUBSTITUTE TO H.R. 2990
OFFERED BY MR. KANJORSKI OF PENNSYLVANIA**

Strike all after the enacting clause and insert the following:

1 SECTION 1. SHORT TITLE.

2 This act may be cited as the “Credit Ratings Ac-
3 countability and Transparency Act of 2006”.

4 SEC. 2. FINDINGS.

5 Congress finds the following:

6 (1) Credit rating agencies play an important
7 role in the United States capital markets by opining
8 on the creditworthiness of certain entities, securities,
9 and money market instruments.

10 (2) Institutional and retail investors utilize rat-
11 ings issued by credit rating agencies in connection
12 with evaluating credit risk and making investment
13 decisions.

14 (3) Many Federal and State regulators and leg-
15 islatures require the use of NRSRO ratings in regu-
16 lations and statutes, including those concerning cap-
17 ital requirements for regulated financial institutions



1 and portfolio quality standards, to ensure the utiliza-
2 tion of high quality ratings.

3 (4) The Securities and Exchange Commission
4 staff, through the no action letter process, has iden-
5 tified certain credit rating agencies as Nationally
6 Recognized Statistical Rating Organizations or
7 NRSROs.

8 (5) The Commission staff's process for identi-
9 fying NRSROs should be more transparent and effi-
10 cient.

11 (6) Increased competition among credit rating
12 agencies seeking to be identified as a NRSRO is de-
13 sirable, so long as it is consistent with efforts to en-
14 sure high quality ratings.

15 **SEC. 3. RULEMAKING ON NRSRO DEFINITION.**

16 Within 60 days after the date of enactment of this
17 Act, the Commission shall finalize its proposed rulemaking
18 to define a NRSRO, published in the Federal Register on
19 April 25, 2005 (70 Fed. Reg. 21306 et seq.).

20 **SEC. 4. SENSE OF CONGRESS ON NRSRO VOLUNTARY**
21 **FRAMEWORK.**

22 (a) FINDINGS.—Congress finds the following:

23 (1) The existing NRSROs in the United States
24 have entered into discussions to improve current



1 oversight of their activities via the adoption of a vol-
2 untary framework.

3 (2) These discussions have sought to apply the
4 self-regulatory model approved by the International
5 Organization of Securities Commissions (in this sec-
6 tion referred to as “IOSCO”) of which the Commis-
7 sion is a participant.

8 (3) The European Commission policy on credit
9 rating agencies set out in December 2005 used com-
10 pliance with the IOSCO code as a central component
11 in ensuring the proper functioning of rating agencies
12 in the capital markets.

13 (4) The Chairman of the Commission has testi-
14 fied before the Financial Services Committee of the
15 House of Representatives that Commission staff are
16 continuing to review drafts of a voluntary framework
17 developed by the NRSROs and offer advice about its
18 provisions and contents.

19 (5) The adoption of a voluntary framework by
20 NRSROs in the United States based on the IOSCO
21 self-regulatory model and paralleling the regulatory
22 regime adopted by the European Commission would
23 enhance market discipline, advance investor protec-
24 tion, and facilitate the harmonization of inter-
25 national standards in the area of credit ratings.



1 (b) SENSE OF CONGRESS.—In light of the findings
2 set forth in subsection (a), it is the sense of the Congress
3 that—

4 (1) all interested parties involved in establishing
5 a voluntary framework for self-regulation in the
6 United States, which is similar to the self-regulatory
7 regime recently adopted by the European Commis-
8 sion that is based upon the IOSCO-approved code
9 for overseeing credit rating agencies, should com-
10 plete discussions and implement a self-regulatory
11 model as soon as practicable;

12 (2) such voluntary framework should be devel-
13 oped in consultation with the Commission and in-
14 clude adoption of any and all rules, regulations, poli-
15 cies, and practices deemed necessary and appro-
16 priate for the protection of investors and in the pub-
17 lic interest, including the disclosure of written poli-
18 cies and procedures of NRSROs in the United
19 States designed to—

20 (A) address conflicts of interest relating
21 to—

22 (i) relationships between NRSROs
23 and rated entities;

24 (ii) relationships between NRSROs
25 and underwriters; and



1 (iii) fee structures of the NRSROs;

2 (B) prevent the misuse of confidential in-
3 formation by a NRSRO or any person associ-
4 ated with a NRSRO;

5 (C) ensure compliance with all relevant
6 Federal securities laws;

7 (D) ensure that each NRSRO is capable of
8 issuing independent, predictive, consistent, and
9 reliable ratings; and

10 (E) provide performance data, including
11 default rates for its ratings, for the immediately
12 preceding 4 years, or if in existence less than
13 4 years, for the life of the entity.

14 **SEC. 5. ANNUAL TESTIMONY ON IMPROVING THE CREDIT**
15 **RATING INDUSTRY.**

16 The Chairperson of the Commission, or a designee
17 of the Chairperson, shall annually provide oral testimony
18 beginning in 2007, and for 5 years thereafter, to the Com-
19 mittee on Financial Services of the House of Representa-
20 tives regarding efforts to improve the transparency and
21 accountability of the credit rating industry, including—

22 (1) the implementation of the final rulemaking
23 on defining NRSROs;

24 (2) the status and the effectiveness of the vol-
25 untary framework described in section 4;



- 1 (3) the quality of ratings issued by NRSROs;
2 (4) the state of competition among NRSROs;
3 and
4 (5) the appropriateness, need, and form of any
5 potential legislation in the area of credit ratings.

6 **SEC. 6. DEFINITIONS.**

7 As used in this Act—

- 8 (1) the term “Commission” means the Securi-
9 ties and Exchange Commission; and
10 (2) the term “NRSRO” means a Nationally
11 Recognized Statistical Rating Organization as deter-
12 mined by the Commission.

